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& Investments

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Bush courts pension funds for recovery

Budget seeks to aid realty, assist PBGC

By Joel Chernoff

WASHINGTON — President Bush wants pension funds to buy more real estate, including distressed Resolution Trust Corp. properties — and has proposed legislative changes to encourage them.

The president's 1993 budget proposal, which would eliminate imposition of unrelated business income tax on certain real estate investments, could open the door to some deals that now are not economically viable for tax-exempt investors. But experts did not expect a flood of new pension money going into the real estate market, especially given its weak condition.

Jim Kaitz, vice president of governmental relations, the Financial Executives Institute, Washington, said: "It would be unrealistic to think there would be billions of dollars flowing into real estate."

John Powell, first vice president, The Bancor Co., Skokie, Ill., said elimination of the tax "might cre-

ate some opportunities down the road for pension funds, but I don't think that will happen over night."

In addition, industry sources said they hope the administration will back other rule changes affecting pension fund investments in real estate investment trusts, providing a potential major source of liquidity for the real estate market.

Separately, the president also asked for sweeping reforms to aid the deficit-ridden Pension Benefit Guaranty Corp. The president wants Congress to toughen minimum funding rules, freeze PBGC guarantees for chronically underfunded plans and enhance the agency's claims in bankruptcy situations.

The administration also proposed switching the PBGC's accounting method for purposes of the federal budget to an accrual method from cash. The net effect will be to swell the PBGC's deficit



by some \$18.5 billion during the next five years, providing what PBGC Executive Director James Lockhart termed a "truer picture" of the agency's financial health.

But the change also would permit the administration to take into account future revenue it would obtain from proposed legislative changes, thus offsetting

See Budget on page 25



President Bush wants to make it easier for pension funds to invest in real estate without incurring a tax hit.

Some skeptical, others applaud

By Hillary Durgin and Fred Williams

Pension executives and money managers graded President Bush's State of the Union message no better than a B minus overall.

Some pension executives said the address was short on substantive proposals reflecting a long-term vision.

But money managers generally praised the package, which they felt could help to invigorate the economy and the moribund real estate market in particular.

"I think I'd score him A in delivery and C minus in substance," said John B. Carroll, president of GTE Investment Management Corp., which oversees Stamford, Conn.-based GTE Corp.'s pension plan. "I didn't hear a program."

"It's another case of government being short-term oriented," he said. "Very often government looks at corporate America and says, 'You're being too short-term oriented.' They should walk the way they talk."

Most money managers strongly support the president's proposed cut in the capital gains tax rate as a way to lead the economy out of recession by stimulating investment and creating new jobs. In addition, the investment management community views the administration's proposals as a boon for the housing industry and a bust for the defense industry.

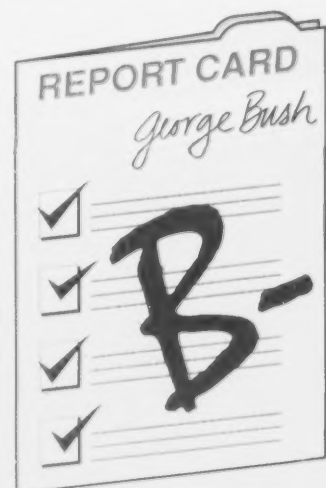
But given uncertainty over whether Congress will approve some of the president's key proposals — particularly in a highly charged election year environment — investment managers and pension executives are skeptical as to whether the president's program can be realized.

"Yes, he has put forward a number of things which, if adopted intact, will provide a decent amount of fiscal stimulus," said Jeff Schoenfeld, manager, liquidity funds at Brown Brothers Harriman & Co., New York. "But a number of things he proposed are controversial and may not be

adopted, such as the cut in capital gains taxes."

Money managers interviewed by *Pensions & Investments* believe the capital gains tax cut will be passed eventually — in some form — this year.

Some pension executives, concerned the administration and Congress might use rash short-term measures to solve long-term problems, expressed caution as to whether battle-scale action is in fact necessary.



"One of the larger concerns we have is that they do something out of a sense of panic," said Roland M. Machold, director of the State of New Jersey Division of Investment, who described President Bush's proposals as a package of "marginal-type programs."

"It does intend to create an appearance rather than a reality," he said of the president's speech. "It's a C as to the distinction between what the speech said and what it actually does."

The Federal Reserve's sharp reduction in interest rates last year will have a far greater impact on the economy than the president's proposals to cut the capital gains

See Bush on page 28

AT DEADLINE

California fund names exec

James Burton has become the assistant executive officer for investment operations at the California Public Employees' Retirement System, replacing Basil Schwan.

Mr. Burton had been deputy state controller, advising the controller on pension matters and frequently representing him at various boards, commissions and authorities, including the California fund's board.

Mr. Burton will be replaced by Fred Buenrostro, legal counsel for State Treasurer Kathleen Brown.

Washington taps Wilshire

The \$15.5 billion Washington State Investment Board has hired Wilshire Associates as consultant, replacing the Frank Russell Co.

Standards endorsed

The board of governors of the Association for Investment Management and Research has endorsed a plan to standardize investment performance measurement and reporting by its 23,000 members.

According to the AIMR, the standards will promote uniform "consistent, fair and unbiased" disclosure of investment management results to clients. The standards will be required by Jan. 1, 1993.

DOL sues on annuity choice

The Labor Department sued

Continued on page 30

Hot market boosts pension surpluses

By Margaret Price

The recently rocketing stock market has fattened the surpluses of many corporate pension funds, postponing the day their sponsors will have to resume contributions.

To keep the pension surpluses intact, more funds are expected to embrace higher stock allocations and/or the use of equity-oriented strategies. Traditional surplus strategies, such as immunized bond portfolios, have lost some of their appeal with the drop in interest rates.

"The classic, absolute safe harbor for a fund is immunized bonds that would involve long-duration bonds. I don't see that as an attractive alternative for funds today," said Lawrence Bader, vice president at Salomon Brothers Inc., New York.

Buoyed by a year-end rally sparked by the Federal Reserve Board's Dec. 20 one-point cut in the discount rate, the Standard & Poor's 500 Stock Index posted a 30.45% gain for 1991. The bond market also performed well last year: the Shearson Lehman Brothers Government/Corporate

Bond Index returned 16.13%.

Lower interest rates generally mean a higher present value for a pension fund's accumulated benefit obligation, requiring the fund to set aside more money today to cover the future value of benefits. Market gains, however, have more than offset the increase in liabilities.

During 1991, the Morgan Stanley Pension Surplus Index gained about six percentage points to 145.18%. As of Jan. 22, pension surpluses had expanded further, as both stock prices and interest rates rose in the earliest weeks

of the year.

Before this winter's stock market surge, many investors had lowered their expectations for equity returns, leading some executives to think companies might have to resume contributions to pension funds in the near future.

But, the market's recent roar has eased at least some corporations' concerns about pension funding: With the market's surge, funds "could show returns of over 20% overall for 1991," said Gary Pines, a vice president in the Chicago office of TPF&C. "This nice

See Surplus on page 30

NEWS DIGEST



R.H. Macy & Co.'s more than \$300 million defined benefit plan is being reviewed by the Pension Benefit Guaranty Corp. following the retailer's Chapter 11 filing. Page 19.

New Jersey and Colorado officials look to their state pension funds for budget help, but system executives want management improvements in exchange. Page 4.

SPECIAL REPORT: MANAGER SCOREBOARD

Pensions & Investments reveals which investment management firms took the biggest strides in adding net new business last year. Page 15.

FINANCING

General Motors' convertible stock issue drew perplexed looks from investors, who are unsure whether it's a value or growth investment. Page 2.

INTERNATIONAL

Managers with foreign capabilities remained popular among tax-exempt funds. Page 15.

REAL ESTATE

GE Investments said New York City's economy was part of the reason it put properties in Chapter 11. Page 3.

David Glickman has resigned as president of Heitman Advisory to spend more time with his family. Page 6.

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The cover of our Jan. 20 issue, "The 1,000 Largest Pension Funds," was illustrated by Douglas C. Klauba

GM's issue bewildering

Investors uncertain if it's a value or growth stock

By Margaret Price
and Terry Williams

General Motors Corp.'s plan to issue stock convertible into shares of its Electronic Data Systems Corp. unit has some investors confused.

Institutional investors are uncertain as to whether they should consider the new issues a growth or value investment — GM is viewed as a cyclical, value stock while EDS is considered a growth stock. The investors also are unsure whether they ought to invest in EDS stock in this indirect manner.

Last week, GM said it planned to raise \$750 million for general corporate purposes by issuing a new class of GM preferred stock (Series C) convertible at a premium into class E common stock of its EDS unit. While the convertibility feature is expected to prove enticing, providing the final terms of the issue are attractive, investors still need to sort out what kind of an investment they would be making. That aspect

gives some investors pause.

"We own GM because we think it is an undervalued security whose earnings potential three years out represents very good value," said William Clarkin, vice president-investments, RCB Trust Co., Stamford, Conn. "EDS would be considered more of a growth stock with its strong (price-earn-

said his firm owns GM stock "for the expected recovery" in the automobile industry, not for any convertibility features of a stock offering. Chicago Asset already has a "full-sized weighting" in GM stock in its portfolios and isn't planning investments in EDS, he said.

Alan Bond, chief investment officer of Bond/Procope Capital Management, New York, considers the GM offering "a good deal. Growth stocks have done well over the last three years. The appreciation opportunity of growth stocks in the near term is far more significant" than value stocks, said Mr. Bond, who expects buyers of the convertible GM stock will be able to pick up the class E stock cheaply.

Many analysts applauded GM's move, its third offering of preference shares within the past 12 months, as a sound business decision in light of the troubled company's urgent need to raise cash for operations. By tying the stock offering to EDS with its record profits, GM should enhance the

See **Stock** on page 26



ings ratio) and types of (technological) businesses it's in. We're not saying that EDS' stock is not a good value, but that different decisions are involved."

While Mr. Clarkin wouldn't say whether RCB Trust would be participating in GM's new stock issuance, he did say the firm "continues to be more attracted to value issues," which it expects to "be the better performers over the next 12 months."

Jon F. Holsteen, president of Chicago Asset Management Co.,

Pru shuts Matrix Capital

Defections doom TAA subsidiary

By Curtis Vosti

Matrix Capital Management, Greenwich, Conn., is being shut down by its parent, Prudential Asset Management Co., because of client and personnel defections from the tactical asset allocation firm.

Prudential hopes to retain Matrix's few equity accounts through a new subsidiary — The Quasar Group — that opened in January. The new firm will seek to take advantage of Matrix's strong equity showing, between 150 and 250 basis points above the strong 30.5% Standard & Poor's 500 Stock Index return for 1991, according to Prudential spokesman Tim Biggs.

Matrix had \$350 million under

management from eight clients as of Jan. 1, a slide from the \$696 million and 18 clients it reported to *Pensions & Investments* as of Jan. 1, 1991. Mr. Biggs said about \$30 million of the loss in assets was due to the transfer of one unidentified fixed-income client to another Prudential subsidiary.

While Prudential still will offer TAA management through its Prudential Diversified Investment Strategies subsidiary, its executives no longer think the strategy is attractive enough to warrant a separate subsidiary.

"The bloom is really off the rose" in tactical asset allocation, said Randy Hood, former managing director of Matrix, who will move to Prudential Investment Corp. when Matrix closes at the end of the first quarter.

Matrix was launched in 1986, and its modeling for TAA blossomed following the 1987 market crash.

In July, three key executives —

President Michael Petrino, Managing Director Hugh Neuburger and Marketing Director E. Clarissa Moore — left the firm over a difference of opinion about the future direction of Matrix. The three set up their own TAA firm — Petrino, Neuburger and Moore, Norwalk, Conn. — which opened in January and is focusing on global tactical asset allocation.

Messrs. Hood and Biggs admitted the departures hurt Matrix, but said the client and asset losses were due more to poor performance and a slackening of client interest in TAA management.

Mr. Biggs said Matrix's TAA strategy returned 73 basis points less than its undisclosed bogey for the year ended Sept. 30.

The median performance of the 28 TAA managers in the DeMarche Associates Inc. universe was 26.86% for the year ended Sept. 30, and the bogey of the Carmack Group TAA universe

See **Matrix** on page 26

Baseball pitch intrigues funds

By Curtis Vosti

If the rhubarb over the Nintendo Co. offer for the Seattle Mariners ends up foiling the \$100 million bid, look homeward, baseball fans.

A quick look at *Pensions & Investments'* Jan. 20 profile of the largest U.S. pension funds indicates that matching the offer would entail, at most, a mere 5% investment by any of 185 U.S. pension funds, including three from the state of Washington. Many have more than that lying around in cash.

Venture capital anyone? Some think a baseball investment could be a home run.

"Why not?" said Len Chaikind, former plan sponsor and now founder of Institutional Investors

Consulting Co. in Houston. "A public pension fund in Houston has invested in golf courses."

"Private investing is going to be the hottest thing for pension funds in the next 10 years," he said. "I don't think there's any legitimate business that isn't fair game for pensions, as long as they do their due-diligence," he said.

While the owner of the Mariners says he is losing money on a year-to-year basis, the \$77 million he paid for the team in 1989 is now worth \$100 million — about an 11% compound annual return.

"Maybe the public plans could rationalize it on the grounds it would be good for the local economy," said Alan Briller, investment consultant and fiduciary for the \$10.8 billion Western Conference of Teamsters Pension Trust, based in Seattle but representing

teamsters in all states from Colorado west.

"It's not a bad investment," said Roger Howeller, executive director of the \$650 million Seattle City Employees' Retirement System. "But \$100 million would be way too big for us."

But not so for the \$15.6 billion Washington State Investment Board. Basil Schwan, executive director of the board, said the fund has been approached informally by investors, but there has been no proposal offered. Although it is tempting, he cautioned owning a baseball team would be somewhat of a gamble for a public pension fund.

"If you don't know how to run (a baseball team), you have no business owning it," he said.

And, Mr. Schwan said, jokingly, See **Baseball** on page 28

Big managers tighten grip on new business

By Sabine Schramm

The investment industry's giant multiproduct managers dominated *Pensions & Investments' Managers Scoreboard* again in 1991, as pension funds continued to move assets into domestic and international passive products, while emerging managers strengthened their positions in the market.

Bankers Trust Co., New York,

SCOREBOARD

and State Street Bank & Trust Co., Boston, led investment managers overall with net gains in U.S. institutional tax-exempt discretionary assets of \$7.1 billion and \$5.1 billion, respectively. The two giants also were the leaders in the 1990 survey.

With more than \$5 billion, or 72%, of its new business in index assets, Bankers Trust also topped the list of index and domestic equity managers in *P&I's Scoreboard*.

(Stories and charts for the complete *Scoreboard* on page 15.)

Passive products prove to be most popular with clients

The top 10 investment managers with total assets of more than \$10 billion added \$36.9 billion in new institutional tax-exempt assets to their coffers during the year ended Nov. 30, \$15.2 billion or 41% of which was invested in equity and fixed-income index products.

For net overall new business gains, eight of the top 10 firms with more than \$10 billion under management were index fund managers.

Besides Bankers Trust and State Street, they were: Wells Fargo Nikko Investment Advisors, San Francisco; Lincoln Capital Management, Chicago; Mellon Bond Associates, Pittsburgh; The Vanguard Group Inc., Valley Forge, Pa.; and Pacific Investment Management Co., Newport Beach, Calif.

"These are good times," said Michael Fisher, senior vice president of marketing for Bankers Trust. "Indexing is a strength we are recognized for, both domestic and international."

Among the smallest managers ranked — those with less than

\$250 million in assets under management — emerging managers represented just more than half of the assets gained overall by the top 10 in that class.

Bob Penter, an investment consultant with Hewitt Associates, Lincolnshire, Ill., was not surprised by the emerging managers' gain in market share of new business. "Public funds have mandates to hire emerging managers," he said.

While industry giants offer a variety of active and passive products, smaller investment firms must find their niche in the market. Beal Investment Co., New York, an emerging manager and a new firm, topped the list among small managers for net dollar gain with \$165 million.

Beal's niche is style portfolios that are a "combination of active insight and quantitative systems technology," said James Francis, portfolio manager. "It's a niche that works."

Beal has corporate and public pension fund clients. "The decision to hire us was a business decision vs. the emerging manager

scenario," Mr. Francis said.

The bottom line — cost — might be the main motivator for pension funds' move to passive strategies.

"There wasn't a big push toward indexing in 1991, but there may have been some rebidding, done on a purely cost basis, particularly by public pension funds," said Mr. Penter. Indexing is a cost competitive business and larger firms have the advantage, he said.

"Some of the bigger pension funds have been streamlining, cutting back on their active managers," agreed Philip Schnieder, consultant in the Chicago office of The Wyatt Co. Some pension funds also have re-evaluated their active strategies and, unable to beat the market, decided to join it, he said.

State Street Bank, the top new business index manager in 1990, moved toward more active management gains in 1991, particularly in the overseas arena.

"There continues to be cash flow into international investments. More of it is actively managed than previously," said Peter

Braun, vice president and director of marketing. "More sponsors are increasing their international allocation."

State Street reported \$1.2 billion in net new international/global business in 1991, compared with \$2.4 billion in 1990.

However, State Street's "most dramatic increase has been for enhanced cash management products, which have a money market orientation," said Mr. Braun. The firm had about \$1.2 billion of new business in cash management.

State Street also topped the list of GIC portfolio managers with \$1.9 billion in new assets.

New business to the top 10 fixed-income managers with assets of more than \$10 billion dollars grew \$16.2 billion. Mellon Bond topped the list with \$4.1 billion, followed by Lincoln Capital with \$2.5 billion.

Although equity markets boomed in 1991, new business for equity managers was less than that for fixed-income managers. The top 10 equity managers with more than \$10 billion in assets grew \$13.1 billion. Bankers Trust topped the list with \$4.6 billion, followed by Wells Fargo Nikko, with \$2 billion in new business. ■

Corporate cutbacks hit pension staffs

Companies relying more on consultants

By Anne Schwimmer

Corporate pension staffs are being cut as part of the downsizing of corporate America, resulting in fewer people with less experience and less time overseeing an ever-growing pot of money — now more than \$1 trillion.

To cope with the staff reductions, corporate pension executives are reducing their stables of money managers so they have fewer firms to oversee, while relying even more heavily on consultants. And some are moving more assets into index funds and other passive investments that require less oversight.

United Technologies Corp., Unisys Corp., Rockwell International and Tenneco Inc. are among the companies whose pension staffs have been cut.

Outright layoffs mostly have been avoided. Instead, corporate pension staffs have been downsized by employees' acceptance of voluntary, lucrative severance and early retirement packages and through attrition. In some cases, higher-paid staffers are encouraged to retire early, so they can be replaced by junior executives with lower salaries.

At United Technologies, where the work force will be reduced by 13,900 people by 1994, three senior pension staffers are leaving by June under voluntary severance and early retirement. Only two of them will be replaced.

"There will be some consolidation at the staff level here," confirmed Francis Hawk, assistant treasurer and director of pension investments, who accepted early retirement. Ms. Hawk's pension duties will be assumed by Cynthia Steer, currently No. 2 in the department. United Technologies,

Hartford, Conn., has \$9.5 billion in employee benefit assets.

At Unisys, Blue Bell Pa., the pension staff numbers five, down from nine two or three years ago, said Charles A. Service, corporate director-capital management and trust investments, who oversees \$5 billion in employee benefit assets.

"The reduction in staff has required a concentration of effort on the most pressing needs," Mr. Service explained. "We had a greater focus in 1991 on existing programs and (did) less research into potential (money manager) candidates than in prior years."

Unisys dropped 10 money managers in 1991, reducing its stable to fewer than 50.

Rockwell, Pittsburgh, laid off Susan Leathers, director of pension asset management, last August as "part of a corporate downsizing within the finance and treasury functions," a company spokeswoman said.

At Tenneco, Houston, the administrative staff of the pension fund has been cut by 15% in the past two years. However, the company's already small investment staff of two is not likely to be affected by any further cuts. Tenneco has announced plans to reduce its work force by about 6,000 people by year end.

And staffers in the pension department at NYNEX Corp., New York, are worried about the company's plans to eliminate more than 10,000 jobs by next year, sources said. A spokesman for NYNEX declined to comment on pension staffing.

Meanwhile, other corporations are encouraging their expensive senior pension executives to take early retirement. Among the senior staffers who recently have

See **Staffs** on page 31



Opportunity costs might be behind GE Investments' bankruptcy filing on its 61 Broadway building.

GE pulls plug on 2 properties

By Steve Hemmerick

NEW YORK — The \$31 billion General Electric Co. pension fund might have plunged two of its New York City buildings into Chapter 11 because the money that would have been used to pay off the debt could be better invested elsewhere.

In an unusual move, GE Investments Inc., GE's investment management subsidiary, placed the two properties under the Federal Bankruptcy Code's Chapter 11 protection from creditors following foreclosure proceedings begun in October by Metropolitan Life Insurance Co., New York.

Metropolitan Life holds a \$91 million mortgage on one of the office buildings, 61 Broadway. The

other property facing foreclosure, 366 Madison Ave., was used as cross-collateral on the mortgage for 61 Broadway.

The bankruptcy filing is unusual because it is usually the cash-rich pension funds that are the lenders filing for foreclosure on borrowers.



Executives at GE Investments wouldn't comment on why they placed the properties in Chapter 11 rather than just make timely payments or just pay off Metropolitan Life's mortgage.

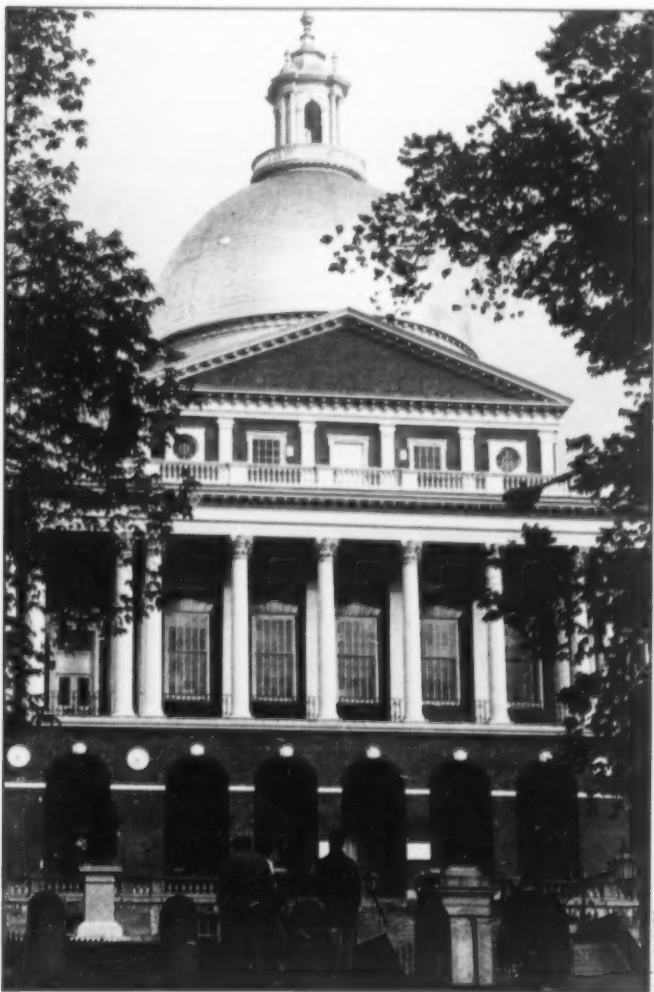
A source familiar with the pro-

ceedings, however, said the GE pension trust didn't make the payments on the properties because of the opportunity cost. The return to the pension fund by paying off the mortgage would have been less than it could make elsewhere in other investments, the source said.

GE Investments manages the GE pension fund's money, as well as money for other pension funds. The source said only GE pension assets are involved.

The source also said GE Investments tried five times — without response — to reach an agreement with Metropolitan Life before filing for bankruptcy.

Joseph Madden, a Metropolitan Life spokesman, said he had no comment on a matter in litigation. See **GE** on page 31



An amendment to Massachusetts pension law saves Boston's city government almost \$18 million in pension contributions.

PUBLIC FUNDS

Massachusetts change saves Boston a bundle

■ Boston will save \$17.5 million this year because of an amendment to state law allowing the city to fund its pension fund based solely on the actuarial assumption, according to a city budget official.

The amendment was passed by the state Legislature Dec. 30, according to Jim Kennedy, manager of revenue and fiscal analysis for Boston.

The state pension law previously required Boston to make pension appropriations in excess of the 40-year actuarial schedule it adopted in 1988, according to a report from Boston's Office of Budget & Program Evaluation.

Under the old rules, in addition to making actuarial-based contributions, the city had to fund the cost of benefits for the first six years of the 40-year schedule.

"When the 1987 Pension Reform Act was being drafted, there was concern that a funding schedule which called for funding at less than current cost of benefits would quickly draw down reserves in the early years, even if the system would fully retire the unfunded liability at the end of the 40-year schedule," the budget office report states.

"We believe that the 22D provision — a section of the state pension law — which requires that the pension reserve balance as of Jan. 1, 1988, be maintained addresses this concern."

— Terry Williams

INTERNATIONAL

Japanese manager on hunting trip

■ Shigeru Masuda, president of Zeron Capital Management, is in the United States trying to raise about \$200 million in institutional money to invest in the Japanese stock market through his firm's Shogun Fund.

Despite the flat returns by the Japanese market overall — about 0.3% for 1991 — Mr. Masuda said he hopes Shogun will reap returns of 30%.

The fund seeks investments in "niche opportunities and market inefficiencies" in the Japanese market's large-capitalization stocks and emerging high-growth

stocks using derivatives and hedging strategies, he explained. The Shogun Fund was launched in January 1991 with about \$10 million of Zeron's own money.

For the first three quarters of 1991, the Shogun Fund returned 23.21%, compared with the Nikkei 225 Index's 0.28%, according to Mr. Masuda.

Zeron Capital Management is only one of a small number of Japan-based investment managers not connected with a major Japanese securities firm, Mr. Masuda said.

— Anne Schwimmer

FEES

Corporate, public funds pay less

■ Average annual fees paid by corporate pension sponsors to outside managers declined 6.6% in 1991, to 41.1 basis points, according to a new study by Greenwich Associates.

Meanwhile, public funds' payments to outside managers dropped 3.7%, to 31 basis points, while the fees paid by endowments and foundations increased 1.9% from a year earlier, to 43.9 basis points, according to the report.

The study also found corporate sponsors paid an average of 48.3 basis points for domestic stock management and 32.9 basis points

to domestic bond managers. Public fund managers paid an average of 37.2 basis points and 26.1 basis points, respectively.

Performance-based fees were used less by corporate and public plan sponsors and more by foundation and endowment sponsors than a year earlier, the study showed.

Among corporate sponsors, the use of such fees dropped to 11% from 12% a year earlier; for public funds, the drop was to 16% from 17%; while endowments increased their use to 18% from 16%, according to the study.

— Curtis Vosti

ECONOMY

Problem? Blame it on the weather

■ Here's some more grist for your economic mill:

Although it notes the U.S. economy is starting to pull out of the recession and the stock market should be bullish in 1992, the Foundation for the Study of Cycles is picking up some bad vibrations in its economic outlook.

"The wild card in our economic scenario is the solar retrograde cycle," Richard Moge, executive director of foundation, said in a recent release. The cycle, an abnormal motion of the sun, is occurring during the 1990s for only the third time this millennium

and, Mr. Moge warned, could have a negative impact on the Earth's climate and food production.

The foundation was established in 1941 and is affiliated with the University of California, Irvine.

During past retrograde periods, the Earth has experienced weather extremes and increased volcanic activity. The foundation expects more of the same during this decade.

Before dismissing this as more West Coast eccentricity, consider the following.

So far, there have been three

major volcanic eruptions — in Japan, the Philippines and Alaska. The foundation notes the National Oceanographic and Atmospheric Administration has found the dust from these eruptions has lowered the average temperature on Earth by 1 degree.

"This is enough to affect food production and thus food prices," Mr. Moge said in the release. "Since food prices have always been the driving force behind interest rates, we can expect those rates to rise, along with inflation as the government puts more money into the system."

"Economic cycles are all dependent upon climate cycles, and we're starting to learn how much climate is affected by cycles outside the Earth."

— Chuck Paustian

BENEFITS

And they thought it was free . . .

■ Midlevel employees would need raises of almost \$10,000 to fund their own benefits if employers cut all health, savings and pension plans, a new report shows.

According to Wyatt COMPARI-SON, a bimonthly report from The Wyatt Co., employees making \$35,000 would need at least \$9,400 more for their own benefits.

The value of benefits for employees making \$24,000 is \$7,900, and the figure increases to \$17,000 for those earning \$75,000.

"Pensions are usually based on salary, which explains why benefits are worth more for employees

making a greater salary," said Scott Gildner, consultant in Wyatt's Washington office.

According to Wyatt's COMPARE data base, providing comparative and analytical benefit

plan information on more than 800 companies, it would cost employees in the midsalary range 13% of their salary to provide for their own health care alone.

— Elizabeth Karier

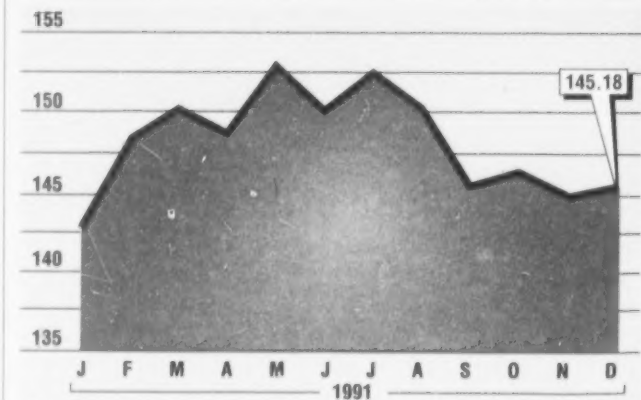
Replacement costs of benefits

	Employee's salary		
	\$24,000	\$35,000	\$75,000
Pay increase required to replace:			
Health benefits, family coverage	\$4,500	\$4,500	\$5,000
Defined contribution plan	\$1,000	\$1,400	\$3,400
Retirement plan	\$2,400	\$3,500	\$8,600
Total increase	\$7,900	\$9,400	\$9,400
Increase as a percent	33%	27%	23%
Total position salary	\$31,900	\$44,400	\$92,000

Source: The Wyatt Co., Washington

CYNTHIA WATSON

Pension surplus index



Source: Morgan Stanley Pensions, New York

CYNTHIA WATSON

ACCOUNTING

New rule has insurers telling more

■ A new accounting rule requiring additional disclosure by insurance companies begins to address concerns of some industry observers who wanted more information about insurance company investments.

The American Institute of Certified Public Accountants has ruled insurance carriers must disclose more fully information about the quality of their investments and risk concentration, such as substantial mortgage lending in a single geographical area or to a single borrower. The rule also requires more information about carrier pension and tax

liabilities. The new rules apply to regulatory disclosures to state insurance bodies.

Kim McCarrel, consultant with Wyatt Asset Services Inc., Portland, Ore., specializing in guaranteed investment products, said the new rule "is great news for people who invest in insurance company contracts."

She said the additional disclosure is important to GIC investors "because these contracts have such long lives a lot can go wrong. The more you know about insurance company financial conditions, the better you can prepare."

— Fred Williams

SPECIAL REPORT: MANAGER SCOREBOARD

Overseas, si; property, no

But GICs flat amid concerns over insurance industry

By Fred Williams

Managers of global/international investments continued to achieve strong gains in new business while guaranteed investment managers saw new business growth flatten and real estate took a predictable plunge in 1991.

In 1991, according to the Scoreboard survey, the top 10 international/global investment managers with more than \$10 billion in assets gained a total of \$7.7 billion in net new business compared with \$7.1 billion in 1990.

J.P. Morgan, New York, topped the list with net new business gains of \$2 billion, followed by Capital Guardian Trust Co., Los Angeles, and State Street Bank & Trust Co., Boston, both with \$1.2 billion.

One surprising aspect about the market leadership is that 1990's leader in net new global/international business gains, Wells Fargo Nikko Investment Advisors, San Francisco, slipped far down the

list in 1991 with only \$461 million in new business compared with \$1.6 billion in 1990.

Brinson Partners Inc., Chicago, doubled its 1990 net new business gain of \$312 million and finished 1991 with \$654 million in net new business.

Gary Brinson, chief investment officer at Brinson Partners, said the growth in the international/global sector "represents a continuing realization by plan sponsors that we are operating on a more level global playing field."

He said the growth in international/global at Brinson is a combination of equity, balanced and fixed-income products.

He said the growth trend is based on a combination of factors. "The world outside the U.S. is very large in developed stock and bond markets, and it is silly for U.S. investors to be parochial in their approach," he said.

International/global investments also tend to reduce overall risk in equity portfolios by gaining "important aspects" of diver-

sification.

Finally, Mr. Brinson said, "clearly by moving to global and international you do provide at least the opportunity for return enhancement; you open the door for the opportunity and possibility to pick up attractive returns from foreign stocks and bonds."

June Debatin, international consultant with The Wyatt Co., Atlanta, said the growth of the international/global area will continue. She said much of the net new business in the sector is from plans starting to invest now that the trend toward international is clearly defined.

Ms. Debatin said there is renewed interest in global bonds now, where yields can be more attractive than in the United States.

"We are seeing a substantial market in global bonds where it is easier in many ways for people (to invest). It is more like an extension of an existing bond portfolio, where on the equity side international investing is more like

a separate asset class," said Ms. Debatin.

Nicholas A. Lopardo, chief investment officer at State Street Bank, said most of the bank's international growth has been on the equity side, and he expects the trend to continue over the long term.

Mr. Lopardo said there was substantial interest in 1991 for indexed products as well as enhanced strategies in the global and international areas using swaps and derivative instruments. Mr. Lopardo said State Street was the first to develop an international stock index futures fund.

As concerns about the insurance company solvency and credit issues dominated the guaranteed investment market in 1991, the new business growth of the top five GIC managers, as measured by the *Pensions & Investments* Scoreboard survey, remained essentially flat in 1991 compared with 1990's growth.

According to the 1991 survey, the five GIC managers with the most net new business, who responded to the survey, gained a total of \$5.059 billion. In 1990, the top five pulled in \$5.051 billion. State Street Bank gained \$1.9 billion in new GIC assets under management, followed by the

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Enhanced indexes are exciting investors

By Terry Williams

Buoyed by a move from plain S&P 500 indexing to more sophisticated strategies and broader indexes, managers offering passive investing continued to show impressive gains in new business in 1991.

"We expect that indexing will be the wave of the '90s," said George Sauter, vice president with The Vanguard Group Inc., Valley Forge, Pa.

Vanguard ranked sixth among the leading indexers, bringing in \$824 million, \$757 million of which went to indexed equities.

"We see it growing exponentially," said Mr. Sauter. "Despite the detractors to the style, it will grow at a faster pace than overall investment management."

Leading the way in net new indexing business was Bankers Trust Co., New York, with \$5.13 billion, \$4.98 billion of which was equity.

Wells Fargo Nikko Investment Advisors, San Francisco, was second with \$3.08 billion. Almost \$2.5 billion went to its equity strategies.

Chicago-based Lincoln Capital Management was third with close to \$2.7 billion, all of it in fixed income.

Although the average active equity manager beat the Standard & Poor's 500 Stock Index in 1991, that isn't likely to stem the growth of indexing.

One reason is that the decision to index stems from a long-term perspective, according to William F. Adams, executive vice president with Mellon Bond Associates, Pittsburgh.

"I think it's a groundswell type thing instead of an event of a given quarter," said Mr. Adams.

Also, indexing beyond the S&P 500 has gained in popularity.

"While there was breathing room for active managers, the

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SCOREBOARD

Net dollar gain

Top managers over \$10 billion overall

Firm	\$ millions
Bankers Trust	7,053
State Street Bank	5,107
Vanguard Group*	4,094
Mellon Bond	4,052
Lincoln Capital	3,266
J.P. Morgan**	3,126
Wells Fargo Nikko	3,076
Brinson Partners	2,945
Pacific Investment	2,360
Investment Advisers	1,850

Top managers \$1 billion to \$10 billion

Firm	\$ millions
Delta Asset	1,960
Hartford Life	1,613
Morgan Grenfell Capital	1,452
Newbold's Asset	1,397
Schroder Capital	1,196
CNA Insurance	1,016
Provident Investment	1,016
Smith Barney Capital	982
Standish, Ayer & Wood	977
Sirach Capital	906

Top managers \$250 million to \$1 billion

Firm	\$ millions
Kensington Realty	728
FX Concepts**	600
Roger Engemann	541
Blackstone Financial	515
Duncan-Hurst Capital	445
Harris, Bretall, Sullivan & Smith	440
Jacobs Levy Equity	391
Eastbridge Capital	380
Janus Capital	353
Commerce Bank	352

Top managers under \$250 million

Firm	\$ millions
Beal Investment	165
Gulfstream Global	155
Guardian Asset	119
Zevenbergen Capital	119
Taplin, Canida & Habacht	117
RhumbLine Advisers	91
Tiffany Capital	90
MTH Asset	88
Schroder Ventures	83
Jamison, Eaton & Wood	80

Most new domestic fixed-income business (net)

Top managers over \$10 billion

Firm	\$ millions
Mellon Bond	4,052
Lincoln Capital	2,477
Pacific Investment Management	2,012
Metropolitan Life	1,792
Prudential Fixed-Income	1,369
Vanguard Group*	1,113
Bankers Trust	1,010
J.P. Morgan	875
BEA Associates	762
Investment Advisers	740

Top managers \$1 billion to \$10 billion

Firm	\$ millions
Morgan Grenfell Capital	1,330
Standish, Ayer & Wood	887
Lowe, Brockenbrough, Tierney & Tattersall	592
Union Bank	518
National Investment Services	508
Weaver C. Barksdale	445
Patterson Capital	428
Barrow, Hanley, Mewhinney & Strauss	422
Bear Stearns	393
First National Bank of Maryland	305

Top managers \$250 million to \$1 billion

Firm	\$ millions
Blackstone Financial	515
Eastbridge Capital	380
First Boston Asset	235
Piper Capital	123
Harris Bretall Sullivan & Smith	91
Seaboard Investment	89
Voyageur Asset	53
Davis Hamilton Jackson	45
Washington Capital	44
Liberty Capital	41

Top managers under \$250 million

Firm	\$ millions
Smith, Graham	78
Income Research & Management	75
Longfellow Investment	43
Taplin, Canida & Habacht	32
LM Capital	30
Brooks Capital	25
Executive Investment	24
Dorsey	21
Wedgewood Capital	20
Llama Asset	14

Most new domestic equity business (net)

Top managers over \$10 billion

Firm	\$ millions
Bankers Trust	4,568
Wells Fargo Nikko	1,969
Boston Co.	1,036
State Street Bank	997
Fayez Sarofim	885
Vanguard Group*	801
Lincoln Capital	789
Investment Advisers	700
Brinson Partners	660
Chancellor Capital	646

Top managers \$1 billion to \$10 billion

Firm	\$ millions
Delta Asset	1,960
Newbold's Asset	1,397
Phoenix	1,133
Independence Investment	814
Provident Investment	798
J & W Seligman	600
Smith Barney Capital	593
SunBank Capital	480
Lynch & Mayer	477
Waddell & Reed	467

Top managers \$250 million to \$1 billion

Firm	\$ millions
Roger Engemann	541
Duncan-Hurst Capital	445
Jacobs Levy Equity	391
Janus Capital	353
Investment Research	313
Enhanced Investment Technologies	270
Amerindo	259
Dietche & Field	252
Harris Bretall Sullivan & Smith	209
Twin Capital	190

Top managers under \$250 million

Firm	\$ millions
Beal Investment	165
Guardian Asset	119
Zevenbergen Capital	119
Tiffany Capital	90
MTH Asset	88
Taplin, Canida & Habacht	85
Sturdivant	60
Jamison, Eaton & Wood	55
Walnut Asset	51
Reinoso Asset	50

SCOREBOARD

Most new GIC/BIC business (net)

Banks & insurance companies

Firm	\$ millions
Hartford Life	1,613
CNA Insurance	995
New York Life	726
Allstate Life	619
Confederation Life	449
Sun Life of Canada (U.S.)	382
AIG Domestic Life	163
Great-West Life	85

GIC portfolio managers

Firm	\$ millions
State Street Bank	1,900
Vanguard Group	1,869
PRIMCO Capital	500
IDS Trust	413
Fiduciary Capital	377
Morley Capital	300
Bankers Trust	289
Jennison Associates	235
Karpus Investment	10
ASB Capital	2

All figures reflect U.S. institutional discretionary tax-exempt assets

*Manager of managers. **Manager of overlay program. All figures reflect U.S. institutional discretionary tax-exempt assets

MANAGER SCOREBOARD

Survey

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Vanguard Group Inc., Valley Forge, Pa., with \$1.869 billion and PRIMCO Capital Management, Louisville, Ky., with \$500 million.

However, several large GIC managers that have been leaders in net new business growth in previous years did not return Scoreboard questionnaires in 1991.

These include T. Rowe Price Guaranteed Asset Advisers, Fidelity Management and Certus Financial Corp. Unofficial indications are T. Rowe Price picked up about \$1.4 billion and Fidelity about \$2.6 billion, in 1991.

Some GIC consultants believe GIC managers that did not respond to the Scoreboard questionnaire probably had minimal growth and didn't want to disclose it publicly.

Jason Psome, principal at Brentwood Asset Advisors Inc., GIC

consultants in Santa Monica, Calif., said managers are spending more time servicing existing clients concerned about "perceived" problems in the insurance sector, "resulting in GIC managers placing more emphasis on maintaining and servicing existing clients rather than out marketing to new clients."

Looking at the official and unofficial figures on net growth in GIC management in 1991 shows clearly that full-service mutual fund operations such as Vanguard, Fidelity and T. Rowe Price are claiming a significant portion of the new GIC management business.

"It is no surprise these full-service companies are increasing their market share," said Mr. Psome. "It is directly connected to the desire by plan sponsors to simplify the investment process for participants while offering diversification."

"However, there are pitfalls with the approach, the least of which is offering too many choices and too many transfer opportunities, which may end up eroding overall returns," said Mr. Psome.

Michael Odum, director of GIC services at Vanguard, cited the firm's "attractive full-service program of choices, record keeping and other defined contribution options" as one reason plan sponsors

turn to Vanguard.

In addition, he said, the GIC investment philosophy is "very conservative" with no history of credit related difficulties.

Negative returns and "significant writedowns" in 1991 combined to hold down the growth in net new business for real estate managers, said Terry Ahern, principal at the Townsend Group, Cleveland, a real estate consulting firm.

In 1991, according to the Scoreboard survey, the top real estate managers with assets of more than \$10 billion pulled in a total of only \$648 million. And that was from only three managers responding to the survey.

In 1990, there were six real estate managers with assets of more than \$10 billion responding. For real estate managers with assets of \$1 billion to \$10 billion, total net new business amounted to \$1.9 billion in 1991 compared with nearly \$5 billion in 1990.

Mr. Ahern said real estate writedowns of as much as 10% in 1991 would be sufficient to offset any additional capital put into the market by investors.

He said the real estate market remains overbuilt, and that factor combined with the slow-growing economy means real estate investments probably will not show positive returns this year and next year.

Indexing

Continued from page 15

long-term cyclical trend toward indexing was not dealt a setback" by the 1991 performance of active equity managers, said Patricia Dunn, president of Wells Fargo Nikko.

"The proliferation of indexing styles has become more important than the S&P 500 as far as new growth is concerned," she said.

Among U.S. institutional investors, the more popular options to the S&P 500 are the Russell 2000 and the Wilshire 5000, said Ms. Dunn.

"Indexing is a multitude of strategies that are increasingly tailored to fit a particular investment niche," she said.

Beyond the broader indexes is enhanced passive investing.

"Part of our product base is the enhanced index area and it has a good track record," said Kenneth Meyer, executive vice president with Lincoln Capital.

Mr. Meyer said he expected the future growth of indexing to be in fixed income.

"I don't think people have begun to scratch the surface yet in the fixed-income area," he said.

"We will see growth in passive, but more likely in the enhanced area."

Naturally, Mr. Adams of Mellon Bond agrees with the forecast for fixed-income passive investing.

"I think that bond indexing, very much like equities, is still growing in popularity, as people recognize that active managers have a difficult time consistently beating the index," he said.

"By and large it's really straight vs. enhanced in most cases."

"I would say there has been a move toward replicating the broader index as opposed to more narrow corporate government indexing."

Pacific Investment Management Co., Newport Beach, Calif., took in \$316 million in net new indexed business. The firm runs enhanced indexes only, and believes the growth is in that niche.

PIMCO uses stock index futures to track an index and actively manages the cash backing the futures, according to Jim Muzzy, managing director.

"What you are beginning to see is a second wave," Mr. Muzzy said. "Those that have (already) indexed are looking at alternatives."

"I think what clients are looking for is a way to track the index and to enhance the returns above it with some degree of consistency."

A particular growth area not tracked by *Pensions & Investments* Scoreboard is foreign pension fund investment in global indexes, according to Ms. Dunn.

European pension funds are taking a "macro view" in their diversification efforts, she said.

"They are using (index funds) because they are efficient and reliable ways to capture returns of the market they want to be invested in," she said.

"We are growing faster outside the United States than inside," Ms. Dunn said.

SCOREBOARD

Most new indexed business (net)

(\$ millions)

Firm	Total	Equity	Fixed income
Bankers Trust	5,128	4,984	144
Wells Fargo Nikko	3,076	2,485	591
Lincoln Capital	2,694	0	2,694
Mellon Bond	2,140	0	2,140
State Street Bank	1,016	1,212	-196
Vanguard Group*	824	757	67
Boston International	775	775	0
BEA Associates	553	303	250
Travelers	340	264	76
Pacific Investment	316	316	0

*Manager of managers

All figures reflect U.S. institutional discretionary tax-exempt assets

SCOREBOARD

Most new domestic balanced business (net)

Top managers over \$10 billion

Firm	\$ millions
Brinson Partners	879
Investment Advisers	410
Bankers Trust	323
Vanguard Group*	222
Wells Fargo Nikko	185
Boatmen's Trust	134
Metropolitan Life	131
First Quadrant**	90
INVESCO MIM	90
Travelers	61

Top managers \$1 billion to \$10 billion

Firm	\$ millions
Sirach Capital	471
First Asset	232
U.S. Trust-Boston	220
Smith Barney Capital	211
Provident Investment	210
Columbia	175
Munder Capital	172
Union Bank	172
J & W Seligman	140
Shields Asset	126

Top managers \$250 million to \$1 billion

Firm	\$ millions
Seaboard Investment	190
Harris Bretall Sullivan & Smith	100
Colorado Capital	82
Schaenen Wood	75
Robert W. Baird	54
Austin & Calvert	41
Palley-Needelman	28
Piper Capital	23
Estabrook Capital	20
Investment Counselors	19

Top managers under \$250 million

Firm	\$ millions
Robshaw & Cheskin	33
Bradford Investment	24
Jamison, Eaton & Wood	22
Connecticut Investment	17
First Commercial Trust	15
Hallmark Capital	15
Godsey & Gibb	14
ICM Asset	10
Perkins Capital	10
Starbuck Tisdale	6

Most new international/global business (net)

Top managers over \$10 billion

Firm	\$ millions
J.P. Morgan**	2,022
Capital Guardian Trust	1,219
State Street Bank	1,203
Scudder, Stevens & Clark	943
Bankers Trust	713
Brinson Partners	654
Wells Fargo Nikko	461
First Quadrant**	248
GE Investments	146
BEA Associates	129

Top managers \$1 billion to \$10 billion

Firm	\$ millions
Schroder Capital	1,196
Putnam	839
Clay Finlay	759
Boston International	709
Baring International	445
Nomura Capital	387
Acadian Asset	205
Morgan Grenfell Investment	186
Strategic Investment Partners*	182
Axe Core Investors	140

Top managers \$500 million to \$1 billion

Firm	\$ millions
HD International	253
Bank of Ireland	146
G.T. Capital	145
PCM International	129
INVESCO MIM International	89
Dunedin Fund	62
Posthorn Global	40
Murray Johnstone	30
Parametric Portfolio	25
Rogge Global Partners	25

Top managers under \$250 million

Firm	\$ millions
Ivory & Sime International	71
Baillie Gifford Overseas	70
Kankaku Capital	50
Prudential Asia	50
RhumbLine Advisers	50
Strategic Global Investments	42
Commerz International	20
Yield Enhancement Strategists	16
Wardley Investment	15
Cseh International	11

Most new real estate business (net)

Top managers over \$10 billion

Firm	\$ millions
GE Investments	266
John Hancock	220
Equitable Real Estate	162

Top managers \$1 billion to \$10 billion

Firm	\$ millions
Yarmouth Group	655
Heitman Advisory	259
O'Connor Group	200
RREEF	199
LaSalle Advisors	194
Prudential Realty	175
Fiduciary Trust International	74
Latimer & Buck	69
Strategic Investment Partners*	44
INVESCO Realty	26

Top managers \$250 million to \$1 billion

Firm	\$ millions
Kensington Realty	728
AMB Institutional Realty	312
PM Realty	215
Birtcher Realty	152
Schroder Real Estate	106
Resource Investments	100
Rosen Associates	55
Metric Institutional Realty	48
Lehndorff & Babson Real Estate	45
MIG Realty	24

Top managers under \$250 million

Firm	\$ millions
Batterymarch: Agrivest	75
Cozad Asset	50
Liquidity Fund	15
Rocky Mountain Investors	15
Forest Investment	13
American Agricultural	1

*Manager of managers

**Manager of overlay program

All figures reflect U.S. institutional discretionary tax-exempt assets

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